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March 15, 2005

Mr. Harry Stoller
Illinois Commerce Commission
527 E. Capitol Avenue
Springfield, IL 62701

RE: Governor's Proposal for Sustainable Energy Plan for Illinois

Dear Mr. Stoller:

The Illinois Industrial Energy Consumers ("IIEC") learned of the request for public comments in the above-entitled matter on the afternoon of March 8, 2005. We apologize for our delay in responding to the request for comment. IIEC is an association of large industrial and manufacturing entities who consume about 13 billion KWH of electricity in the State of Illinois. They employ approximately 90,000 people. The cost of electricity can range from 5% to 75% of their total operational costs. Therefore, they are vitally concerned when state government proposes to implement mandatory standards which require customers of any size to purchase and pay for particular kinds of electricity. They do not generally support mandatory standards of this kind. IIEC does agree that all suppliers should consider offering renewable energy and energy efficiency products to their customers. However, customers should not be compelled by state mandate to purchase such products.

IIEC is unable to provide a detailed response to each of the questions presented in the Commission's request for comments. Its failure to do so, or its failure to respond directly or indirectly to any subject raised or discussed in the Commission's request for comments should not be considered an acceptance or endorsement of the particular point or position.

IIEC appreciates the opportunity to provide the following comments directly to the Commission:

1. The proposal may not be able to be implemented under present law. The Commission has limited jurisdiction over alternative retail electric suppliers (ARES). The proposal would require ARES to enter into long-term renewable resource supply contracts. There is no authority in the Public Utilities Act (the "Act") for this provision. Nor is there any specific authority in the Act that would allow the Commission to require the utilities to purchase power and energy from particular kinds of generation.

2. Generally industrial customers cannot manage their production based on such things as changing wind conditions. They require capacity backed generation.

3. The standards suggested under the proposal would require that 2% of all electricity sold in Illinois by 2006 be generated from renewables. However, most Illinois utilities are currently obligated by long term purchasing contracts. Some of these impose a "take or pay" obligation on the utilities. The 2% requirement by 2006 does not appear to be practical since these long term contracts will not expire before December 31, 2006.

4. Any RPS or energy efficiency standard should be implemented on a voluntary basis and based on market demand for such products. The proposal does not recognize that a mandatory standard is not a proper vehicle to promote efficient and cost effective renewable resource development. It does not recognize that the benefits of renewable resources are not a function of such a standard. The economics of wind generation are utility specific. Wind power will develop and should be developed in those utility service territories where the economics are suitable. Such development should be on a voluntary basis.

5. Requiring suppliers to contract for specific periods of time is contrary to the consensus reached by the Competitive Issues Working Group (CIWP) in the Post 2006 process which identified green tags as an appropriate mechanism for compliance with an RPS standard. RWG also reached a consensus that ARES should be able to show compliance with renewable portfolio standards by demonstrating ownership of renewable energy certificates. This consensus is not reflected in the proposal.

6. The standard that requires 8% of total electricity supplied to Illinois customers must be generated by renewable resources has several problems.

- It is not clear whether the standard is an aggregate standard. It should be an aggregate standard.
- The phrase "total electricity supplied to Illinois customers" is not defined. It is not clear whether this is total electricity supplied by ARES and Illinois electric utilities constitutes the "total" or whether the "total" includes electricity supplied by municipals, cogeneration, self-generation, distributed generation, etc.
- The penalty upon suppliers' failures to comply is \$25 per Mwh applied for each year for any shortfall in contracted

supply. However, it is unclear how a supplier would be able to contract for an amount necessary to meet the standard when the standard is 8% of all electricity supplied in Illinois and the individual supplier may only be providing a portion of that supply.

- In addition, it is not clear whether the 8% standard is based on forecasted or historic load. If it is based on forecasted load, it is not clear how a supplier can be assured of meeting the standard and minimizing his exposure to the penalties specified. If it is based on historic load, changes in demand for electricity can impact the ability of a supplier to meet the standard.

7. The Standard would require that 6% of all energy supplied in Illinois come from wind power. The proposal does not consider the practicality or feasibility either physically or financially of achieving this goal.

8. Based on preliminary estimates, the cost of wind generation is in the range of \$64/Mwh to \$72/Mwh, excluding the current production tax credit.¹

9. Wind generation cannot substitute for fossil fired generation that is dispatchable. The heavy reliance on wind power ignores the fact that wind power is not dispatchable and, therefore, will require installation of additional generating capacity in order to provide energy when wind power is incapable of doing so. For example, requiring that 6% of the energy supplied in Illinois be served by wind power fails to recognize the significant amount of wind capacity that would be needed to meet this requirement. For example, a utility, with a 20,000 MW peak load and a 50% load factor would need 2400 MW or approximately 12% of its peak load demand to meet the 6% energy requirement. This assumes wind generation has an annual capacity factor of 25%.

10. A penalty of \$25 a Mwh for failure to comply with the standard is unreasonable. It will only allow wind power generators to add a premium to their price. Any such penalty will ultimately be passed along to customers. Based on current prices such a penalty would constitute anywhere from 50% to 30% of a customer's cost of power on a cents per kWh basis.

11. Reliance on wind power does not recognize that wind driven generating resources are often located in areas with insufficient transmission capacity to move the electricity from the generator to the user of the power. This adds additional costs to wind drive resources that are not recognized in the proposal. For example, wind developers in Texas built 700 MW of wind capacity, pursuant to its mandatory standard, in an area that could only accommodate 300 MW of capacity from a transmission standpoint.

¹ Assumes a 50 MW wind turbine, 25% capacity factor, 20 year life, \$1100/kw (2006 \$) installed cost, fixed O&M of \$28.50/KW (2006 \$) and interest rate of 8% or 10% respectively.

12. The proposal does not recognize the technical, operational, logistical and practical issues associated with integrating non-dispatchable wind energy and other renewables into the regional or utility resource portfolio.

13. The proposal does not recognize that regional transmission grids are developed largely to accommodate generators that are dispatchable and to improve grid reliability.

14. The proposal, in some respects, is inconsistent with the consensus reached in the Rates Working Group (RWG) in the Post 2006 Initiative conducted by the Commission. In particular, the RWG reached consensus that any RPS standard must be aligned with the Post 2006 power procurement process. The proposal does not contemplate this possibility.

15. In addition, the RWG agreed that the RPS must consider the effect of the use of renewables on rates. In evaluating the economics, the proposal contemplates consideration of externalities which was not a point of agreement or discussion in the Post 2006 process. There is no consensus that the economic impact on health costs should be considered.

16. The standard does not recognize there was a consensus within the RWG that the net cost of net savings in commodity acquisition expense associated with energy efficiency should be reflected in the commodity rates.

17. The proposal places too much reliance on wind power and not enough on other renewable resources. The list of renewable resources does not appear to include demand response management programs, load management or demand response technologies, management practices or other strategies, industrial by-product technologies or distributed generation.

18. The proposal does not recognize the consensus of the CIWG that any RPS should not apply to Subpart E ARES, (Industrial customers who supply their own load) or co-generators.

19. The proposal does not recognize the consensus of the CIWG that the renewable portfolio standards should apply to BGS winners.

20. The proposal does not consider the possibility that potential ARES will be discouraged from participation in the Illinois market because of the onerous nature of penalties and requirements that such suppliers enter into long term contracts.

21. Adoption of a mandatory proposal will inevitably lead to suggestions or demands from utilities that the Commission implement a non-by-passable charge payable by all customers (regardless of whether the customers wish to purchase green power energy, or to pay the additional costs associated with such a product or even purchase power and energy from their host utility.) Usually these charges are imposed on a cents per kwh basis which makes them particularly onerous from the point of view of customers who consume almost 13 billion kwh of electricity in Illinois. Adding additional costs to the price of electricity in an era when all parties expect prices of electricity to climb in Illinois without such additions, could make Illinois less competitive to large manufacturers who are the source of substantial well-paid jobs in this State.

March 15, 2005

Page 5

22. To the extent customers are required to pay for the renewable resources and energy efficiency, they should receive environmental associated credits such as the CO² reduction credits.

23. The energy efficiency standard does not appear to be workable because utilities in Illinois are not in the generation business any longer and ARES customers may not wish to participate in such programs if they have already initiated energy efficiency programs in order to reduce electric costs. Such programs should be implemented on a regional level by the RTO and should include demand response programs.

IIEC welcomes the opportunity to discuss these issues and the appropriate mechanism and procedures for implementing and including renewable generation resources in energy efficiency programs in the resource mix for the State of Illinois in particular, and for the region as a whole, but it cannot support the imposition of mandatory standards and non-bypassable surcharges associated with the implementation of such standards.

Very truly yours,



Eric Robertson

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